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for energy consumers

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Dear Stakeholder

Ofgem costs for administering the Renewables Obligation (RO)

This letter sets out our proposed charges for administration of the RO for the period April 2020 – March 2021.

Forecast costs

Our forecast cost for the administration of the RO for 2020-21 is **£6,677,419**. This represents an increase of **20.6%** over the cost of administration in 2019-20, however, this remains around 0.1% of the estimated value¹ of the scheme.

One of the primary reasons for this cost increase is our continued focus on Audit and Compliance. As noted in our letter last year², we have continued to develop our compliance and audit programmes, introducing a statistically sampled audit aspect to our audit programme for RO in 2020-21. This requires increased volumes of audits and equivalent corresponding increase staff to manage the process and work through the outcomes of the audits.

In addition, while overall IT spend has reduced, a the large scale rewrite project for the Renewables & CHP Register, the online system we use to administer the RO scheme, continues this year. The current Register was developed in 2006 and given the rapid advances in technology, is now considered a legacy system, with limited support available and outdated security specifications. A number of key processes are not catered for in the existing system, meaning they are performed outside of the Register, leading to higher operational costs and increased risk. The outdated user interface and limited functionality also leads to a less than optimal user experience. Our project team are currently in the Beta phase of the project, with the system due to launch towards the end of this financial year.

As always, we continue to take steps to improve efficiency and minimise costs where possible. Our department's finances come under internal budget scrutiny and Ofgem's finances, as with any government organisation, are audited by the National Audit Office.

¹ We have calculated the value of the RO in 2018-19 as £6.4 billion by multiplying the estimated supply of electricity in the UK in 2019-20 (274.02TWh – from BEIS prediction available [here](#)) by the GB obligation level (0.484 ROCs per MWh) and the buy-out price (£48.78).

² https://www.ofgem.gov.uk/system/files/docs/2019/08/ro_cost_letter_2019-20_v1.0.pdf

We do not project the cost of our administration of the RO further forward as our budget requirements are heavily dependent on the scale and scope of any amendments to the scheme.

What are the charges paying for?

Our responsibilities under the RO Orders³ include (but are not limited to):

- Accrediting generating stations
- Issuing and revoking Renewables Obligation Certificates (ROCs)
- Establishing and maintaining a register of ROCs
- Granting grace periods
- Maintaining and upgrading the IT system used to administer the RO
- Publishing a list of accredited and pre-accredited generating stations
- Auditing generators and suppliers to monitor adherence to the requirements of the Orders
- Monitoring compliance with sustainability requirements
- Monitoring and enforcing compliance with the requirements of the Orders
- Monitoring supplier compliance and receiving/redistributing buy-out and late payments as well as mutualisation payments
- Publishing the annual report on the RO

Timing of costs

We intend to recover these costs in October 2020 from the money paid into the buy-out fund in respect of the 2019-20 Compliance period. As described in legislation, we can only use the RO buy-out fund to recycle payments to suppliers who present ROCs for compliance and to cover our administration costs.

Table 1

Category (2019-20)	2019-20	Category (2020-21)	2020-21
IT (Development)	£1,828,166	IT Development & Support	£1,746,399
IT (Ongoing)	£227,011		
Legal Support	£225,549	Legal Support	£572,187
RO Operations Team	£2,578,207	Applications & Amendments	£467,754
		Audit & Compliance	£2,203,703
		Servicing Participants & Reporting	£651,503
		Enquiries & Stakeholder Engagement	£302,246
Overheads	£582,351	Overheads	£809,364
	£5,441,284		£6,753,156
Legislative Change	£142,970	Prior Year Adjustment	(-£75,737)
Prior Year Adjustment	(-£45,589)		
	£5,538,665		£6,677,419

³ The Renewables Obligation Order 2015 (as amended), The Renewables Obligation (Scotland) Order 2009 (as amended) (ROS), The Renewables Obligation (Northern Ireland) Order 2009 (as amended) and the Renewables Obligation Closure Order 2014 (as amended).

Breakdown of costs for 2020-21

For 2020-21 we have reviewed how we categorise and present the different costs associated with administering the scheme to better reflect our activities as the scheme has closed and transitions into a legacy scheme. Table 1 shows the breakdown of costs that make up the total for 2020-21⁴, along with the breakdown of 2019-20 costs for comparison. The sections below provide a brief explanation behind each component of the budget.

IT development and support

These costs include the support and infrastructure costs of our IT system. They also include development costs which account for IT changes that allow the system to run more efficiently and improve its usability. While costs this year have decreased, they remain significantly higher than would usually be expected, largely as a result of the Renewables & CHP Register rewrite. We have had a full rewrite project team in place since September-2019 and are currently in the Beta phase of the project. The team have been testing components with internal and external users and plan to go live with the new system towards the end of the financial year.

Legal Support

This includes internal legal team support costs, external counsel and solicitors' costs for advice on complex legal issues. It also includes the costs of defending any legal proceedings such as current or anticipated court costs. The costs have increased over those in 2019-20 and reflect the increased support we need from our legal team as we deal with novel application scenarios and complex applications driven by the closure of the scheme to new entrants and the withdrawal of accreditation from some generators.

Applications and Amendments

These costs cover processing accreditation applications and amendments. While new applications to the scheme have ceased, this year sees the applications team continuing to deal with the remaining applications from the large influx we received in the run up to the closure of the scheme to new entrants in March 2017. We have also seen an increase in the number of amendments to existing accreditation applications being submitted.

Audit and Compliance

The budget attributed to audit activity has increased from 2019-20, with the introduction of a statistically sampled audit programme during 2020-21, alongside our existing targeted audit programme. We have also introduced a new audit software which our appointed external auditors are using to conduct and upload the audits to a centralised portal. This will provide for greater insights across the population of audits conducted into potential non-compliance themes.

Investigations into instances of participant non-compliance have also been a key focus for the team along with proactive management of supplier non-compliance, with supplier failures and the mutualisation process continuing to contribute to this.

Servicing Participants and Reporting

The team also continues to review and validate an ever-increasing volume, and value, of ROC claims in advance of issuing the certificates, including a significant drive to issue 'banked ROCs' in the run up to the annual compliance deadline.

⁴ These costs relate to our administration of the RO for England & Wales, Scotland, and Northern Ireland. The Utility Regulator Northern Ireland (UREGNI) has its own costs for administration of the NIRO for 2020-21. These are not included in the listed Ofgem costs, but will be recovered from the RO buy-out funds.

Enquiries and Stakeholder Engagement

This covers our interactions with scheme participants and members of the public, as well as our regular engagement with BEIS and the devolved administrations to improve the administration of the RO and deal with any emerging issues or new policy.

Overheads

The overhead charge was calculated as 12% of budgeted costs for the E-Serve division in Ofgem and fixed at this level.

Yours sincerely

A handwritten signature in black ink that reads "Carmel Golden". The signature is written in a cursive, flowing style.

Carmel Golden

Head of Scheme Portfolio and Policy Development